WHY DOES CAPITAL FLOW FROM POOR TO RICH COUNTRIES? INTEREST GROUPS AND DYNAMIC GAMES IN POOR COUNTRIES

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Abstract

We present a model where capital flight occurs gradually, even though there are no adjustment costs and technolgies are linear. Capital flight is the outcome of a distributive conflict among interest groups. The peculiarity is that each group can appropriate any ammount of the other groups' capital stocks held at home. We find, however, that along the interior equilibrium, each group appropriates just part of the others' stocks, i.e., decapitalization is gradual. We model the conflict as a differential game.

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